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C O N F I D E N T I A L SECTION 01 OF 02 STATE 150552

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TAGS: [BG](#) [ECON](#) [ENRG](#) [EU](#) [PGOV](#) [RS](#)
SUBJECT: RESPONDING TO BULGARIAN CONCERNS ABOUT RUSSIAN
PRESSURE ON SOUTH STREAM PIPELINE

REF: SOFIA 1240

Classified by EUR DAS Matt Bryza for reasons 1.4 (b) and (d)

11. (C) As detailed in reftel, the Bulgarian government is under pressure from Russia to come to a quick agreement and sign various texts related to the Russian conglomerate Gazprom,s proposed South Stream pipeline project under the Black Sea. The GOB has requested USG assistance and talking points in responding to the Russian pressure to sign what the GOB and USG believe is a bad deal.

12. (SBU) Embassy should draw from the following points in discussions with Bulgarian interlocutors regarding the South Stream pipeline:

-- Our concerns about Gazprom, and by extension, South Stream, result from our opposition to monopoly control over energy, especially Gazprom,s control of both production of natural gas and pipelines to deliver it. Our policy is anti-monopoly, not anti-Russian.

-- South Stream would be part of the entire Gazprom network, which is a company that is majority state-owned, nontransparent, subject to every kind of political manipulation, and does not make decisions based on market principles.

-- South Stream reflects a Russian effort to strengthen and maintain Gazprom,s monopoly control over delivery of energy to the EU, by undercutting Nabucco and locking Bulgaria and its European allies into a dangerous cycle of dependence.

-- The longer Bulgaria remains (and deepens) its dependence on Gazprom the harder it will be to re-establish Bulgaria,s energy independence.

-- Our concerns over South Stream are twofold: (1) it aims to limit Azerbaijan,s and Central Asia,s ability to export gas directly to Europe; and (2) it could severely damage EU and USG efforts to enhance European energy security through diversification of sources and routes. As you know, the US and the EU support both TGI and Nabucco as critical elements in advancing each of these goals.

-- It remains important to increase the diversity of both sources and supply of energy to Europe. Since Russia is already the largest provider of imported natural gas to

Europe, and a substantial exporter of oil, additional Russian-controlled pipelines carrying Russian gas do not improve energy diversity for Europe.

-- Therefore, it is crucial that Bulgaria and its Nabucco partners focus their efforts on realizing the Nabucco project with Azerbaijani gas. Azerbaijan has clearly committed itself to Nabucco and can supply both TGI and Nabucco,s first phase.

-- Moreover, as it is unlikely that Russia can greatly increase gas production for export to Europe, Russia probably will only be able to divert supplies from existing transport mechanisms. As a result, South Stream likely would only serve to reduce the amount of gas available through other pipelines.

-- Because it is designed to bypass Turkey, Ukraine, Moldova, and Romania, South Stream leaves them more vulnerable to Russian use of energy as a political tool. Bulgaria should not be party to such a beggar-thy-neighbor policy, which only degrades the energy security of Europe.

-- South Stream,s enormous technical and financial challenges raise serious questions on whether it will be built. Bulgaria should carefully consider whether this project is likely to be completed, or whether it is simply meant to undercut support for alternative pipelines to Europe, such as Nabucco and TGI, which are not Russian

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controlled.

-- We believe South Stream is not commercially attractive. Once Europe,s gas markets are liberalized, South Stream gas could be the most expensive gas entering Europe, and thus may remain empty.

-- The Bulgarians should contract an independent consultant and/or lawyer immediately to ensure that Bulgaria,s interests are being addressed in these negotiations and to analyze the commercial feasibility study that ENI is conducting on South Stream BEFORE it signs anything.

-- The Bulgarians should demand that the source of the gas for South Stream be identified, along with the timetable for its development and the anticipated costs. (If the gas is from Yamal, it likely will be more expensive when delivered via South Stream. If it is from Central Asia, Bulgaria would be better off dealing directly with Kazakhstan and Turkmenistan and taking the gas by another route.)

-- We urge Bulgaria to give its fullest support for Nabucco, as maintaining political alignment in support of the project among its sponsors is critical to providing confidence to investors in upstream production in Azerbaijan, which in turn is critical to European efforts to diversify sources of gas supply.

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